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SIPDIS

INL -- ABBY SMITH

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TAGS: [ABUD](#) [AFIN](#) [SNAR](#) [KCRM](#) [PA](#)

SUBJECT: PARAGUAY'S FY 2007 INL BUDGET REQUEST -- CORRECTED

SUBMISSION

REF: STATE 488

#### I. PROGRAM SUMMARY

Paraguay is a transit country for roughly 40-60 metric tons of Andean cocaine en route to Brazil, Europe, the Middle East, and the United States. Paraguay is also a source country for high-quality marijuana consumed largely in Brazil and Argentina. Paraguay is a principal money laundering center, but there is no evidence as to what percentage is drug-related. The multi-billion dollar re-export contraband trade centered in Ciudad del Este facilitates money laundering. The narcotics trade and money laundering have a direct negative impact on USG political, economic and security interests, particularly as a possible source of terrorist financial support through the Tri-border region. They also pose a continued threat to Paraguay's fragile civil institutions, democratic order, and economic well-being. Despite notable efforts by President Nicanor Duarte to combat corruption, it remains embedded throughout the Paraguayan government, judiciary, and economy.

As outlined in the Mission's MPP, the work plan for FY 2007 and beyond is designed to focus our limited assets on strengthening the GOP's capability to disrupt cocaine trafficking operations, pursue and arrest high-level narcotics traffickers, and to combat money laundering. Our goal continues to be working with the Anti-Narcotics Secretariat (SENAD) and the Financial Analysis Unit (FAU) of

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the Anti-Money Laundering Secretariat (SEPRELAD) and SENAD's Financial Crime's Unit (UIDF) to strengthen narcotics and money laundering investigations, arrests and prosecutions. Indicators of success feature prosecution of major narcotics cases, the implementation of a special communications program, and a notable reduction in the cocaine flowing through Paraguay.

SENAD continues to work closely with DEA and SEPRELAD's FAU to combat money laundering and piracy through new efforts to change existing money laundering laws and to provide training. A U.S. Department of Justice (DOJ) Resident Legal Advisor (RLA), detailed to Post in June 2003, has assisted the GOP in drafting a new money laundering law and is working on developing the skills of prosecutors. A Department of Treasury (DOT) Resident Enforcement Advisor (REA) was assigned to the Embassy in 2004 to assess training and other needs of SEPRELAD -- Paraguay's FIU -- to help mount an effective anti-money laundering mechanism. Indicators of success include passage and enforcement of the new money laundering law and obtaining convictions in money laundering cases.

Paraguay has made significant strides to professionalize its anti-drug enforcement agency and improve its ability to conduct complex operations based on intelligence. In November 2004, cooperation between Brazil and Paraguay produced the arrest of Carlos Mendes-Mesquita, a major narcotrafficker of the Beira-Mar drug trafficking organization tied to Colombia's FARC and wanted in the U.S. as well as the seizure of 262 kilograms of cocaine - historic by Paraguayan standards. Similar cooperation throughout 2004 enabled Paraguay to extradite to Brazil five additional high-profile narcotraffickers. In January 2005, Paraguay arrested Nilton Cesar Atunez, another notorious Brazilian trafficker associated with the Beira Mar organization and seized 103 kilograms. These arrests demonstrate an increased ability and disposition on the part of SENAD to undertake effective investigations of major drug traffickers, often in collaboration with Brazilian counterparts.

SENAD is at a critical point in its development and is demonstrating increasing will and ability to do the right thing. The removal of all police from SENAD has transformed it into a genuinely autonomous unit free of the corrupting influence of the National Police. The addition of over sixty new agents into the semi-vetted unit provides SENAD with the additional manpower required to increase operations against narcotraffickers. In addition, SENAD recently requested and received approval from the President to hire another fifty new agents that will also become part of the semi-vetted unit and signals the GOP's commitment to dedicate increased

resources to combat drug trafficking. SENAD will need USG support to polygraph and train the new recruits as well as to provide bonus payments and increased funding for operations.

Post appreciates the challenge Washington faces in deciding how to allocate a diminishing pool of resources allocated to the Latin American regional account. Our budget submission represents an appreciation for this reality and reflects a consideration of pipeline funds. A comparison with our submission from prior years will reveal we have significantly reduced our request for funds. Nevertheless, USG funding in several key areas remains crucial for Paraguay to build on its progress in combating narcotics trafficking.

Notwithstanding our assertions to the contrary, the GOP will interpret a cut in funding as a political statement signaling U.S. dissatisfaction with GOP efforts and a lack of U.S. commitment to GOP programs. More substantively, a cut in funding will undercut SENAD's ability to sustain its stepped-up effort to stem trafficking activities.

**II. PROJECT DESCRIPTIONS:** Under the FY07 Mission Performance Plan (MPP) Performance Goal of Disruption of Criminal Organizations, Post aims to enhance Paraguayan law enforcement institutions that counter transnational crime harmful to U.S. national interests, including drug trafficking, money laundering, IPR violations, and TIP.

**IA. Project Title:** Strengthening Host Country Enforcement Capability

**IB. Project Description:** This project involves continued support of the SENAD's semi-vetted investigative unit which was recently expanded by over sixty agents as mentioned above. Additional growth is expected in 2005 with the hiring of fifty new agents who will also be brought into the semi-vetted unit. These field agents are located in four regional offices, assigned to conduct investigations of, and carry out operations against, suspected drug traffickers. Funding will be used to purchase upgraded computers and create and install a centralized database for storing, retrieving, and analyzing narcotics intelligence. We will also use funds to provide several training courses including firearms identification, OPDAT training for judges and attorneys, report writing and evidence handling, and the provision of an intensive three-week drug investigation course for all agents. The broader goal of identifying, arresting and prosecuting traffickers and money launderers is also supported through related projects such as training, equipment and commodities, operational support and the narcotics detection canine program.

Post is requesting an increase in funding for operational support in order to meet requirements for a plan elaborated by JIATF South and the Embassy to enhance support of GOP interdiction efforts in collaboration with USG agencies. This proposal, which originated in response to a request by the Ambassador, represents an effort to meet the physical and political challenges that we face in Paraguay with a comprehensive, integrated plan that will enable us to take advantage of JIATF South support in terms of intelligence, planning, and coordination. The plan consists of three phases involving intelligence preparation for CNT operations, small unit training, technical support for helicopter maintenance, an expansion of helicopter support infrastructure, and employment of airbourne surveillance for detection and monitoring and possible deployment of ground based radars. DEA will fund construction of remotely located fuel tanks out of Andean Funds. However, we would like to draw down our operational funds to fund mobile fuel trucks as well as fuel that will allow for fuel support of helicopters in the outlying reaches of Paraguay, particularly the Chaco region, where the trafficking takes place.

**IC. Resources Requested:** USD 350,000

**ID. Resource Justification:** With the assistance of DEA and thanks to INL funding, SENAD has taken significant strides toward strengthening its institutional capacity to combat narcotics trafficking throughout the country. It has significantly enhanced the number of agents who have taken polygraph exams and been assigned to one of the four regional offices. In addition, the continued purchase and training of new canine units have helped to increase overall cocaine seizures for the past three years.

Much of the trafficking of drugs in Paraguay centers upon the Chaco, an area the size of Arizona. The Chaco is highly remote and the lack of any radar in Paraguay provides traffickers with an expansive corridor for moving cocaine through the region. Helicopter coverage is vital for conducting operations in this harsh terrain where passable roads are few and distances great. The cost of helicopter fuel is prohibitive for the GOP. INL funds are critical for making the JIATF South-Embassy Conops operational and effective. This project will further enhance efficiency and provide critical information for the investigation of

narcotics traffickers. It will strengthen the ability of SENAD to conduct investigations and serve to professionalize law enforcement officials. GOP does not have the resources to carry out these essential activities. Failure to meet these resource requirements with impact negatively on the ability of the GOP to conduct operations and make seizures.

**E.** Performance Measurements: 10% increase in the number of narcotics cases successfully prosecuted, 10% increase in the number of operations successfully executed.

**F.** Sustainability: Currently, the GOP lacks the ability to polygraph its agents and the funds to compensate them properly. It also does not have sufficient funding to purchase equipment, train its law enforcement and judicial sector personnel, and conduct operations. Ultimately, dedication of funds obtained from sale of seized assets should help the GOP meet more of its resource requirements. Train the trainer programs will enable the GOP to better meet future training needs.

**G.** Evaluation Plan: DEA and GOP statistics on investigations and seizures.

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**A.** Project Title: Control Money Laundering and Financial Crime

**B.** Project Description: INL funds continue to provide training and equipment for the SEPRELAD's FAU, which is responsible for processing suspicious activity reports, the SENAD's UIDF which conducts criminal investigations of suspected drug-related money laundering cases, as well as other judicial sector officials involved in prosecuting money laundering cases. Complete and informative suspicious activity reports and thorough investigations are critical for the preparation of successful prosecution of money laundering cases. The Duarte Administration has increased SEPRELAD's budget by 500 percent, providing it with sufficient resources to dismiss analysts hired by a previous director, who left under suspicion of corruption, and to hire new employees, and move into more secure quarters. The Treasury Resident Enforcement Advisor (REA) will work with the director to increase reporting of suspicious activities and will assist in training the new analysts. OPDAT may share training expenses. The expected increase in activity will require an expanded computer infrastructure, the purchase of vehicles, and equipment for the SEPRELAD and SENAD teams.

**C.** Resources Requested: USD 50,000

**D.** Resource Justification: Funding will be used to provide equipment and training for SENAD's UIDF and SEPRELAD's FAU to enhance their capacity for collecting and analyzing suspicious activity reports and other intelligence received from financial institutions and obligated entities and for conducting criminal investigations of suspected money laundering violations. It will also be used to train prosecutors and judges in prosecuting money laundering cases.

Ultimately, the goal is to create an effective anti-money laundering mechanism that will eventually draw in professional organizations, and Customs and border control officials. SEPRELAD has taken significant steps to hire professional analysts and establish respectable operating procedures to analyze cases. However, its analysts and investigators of financial crimes from other GOP agencies require specialized training in the entire conduct of investigation from analysis of SARs to prosecution of defendants. The U.S. is the only entity capable of providing this kind of training. Without it, the GOP's ability to investigate and prosecute money laundering cases will be significantly hampered.

**E.** Performance Measurements: The goal of this project is to develop cases actually investigated through Resident Enforcement and Legal Advisor-led training, and coalition building among financial institutions and investigative units. Progress toward achievement of the project will be measured in terms of the number of successful prosecutions of money laundering cases presented to the Attorney General's Office.

**F.** Sustainability: The GOP's ability to secure funds seized in assets will impact significantly its capacity to meet future training requirements. Train the trainer programs will also address sustainability requirements.

**G.** Evaluation Plan: GOP statistics.

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**A.** Project Title: Demand Reduction Assistance

**B.** Project Description: This project is focused on expanding current efforts to educate school-aged children on the dangers of illegal use of drugs. The funds requested are

directed primarily toward SENAD's school and neighborhood-based prevention programs, and to possible support for the creation and airing of public service announcements (PSAs.) Plans for this year involve expanding the program to reach children, parents, and teachers within Asuncion and in remote areas of the country.

**1C. Resources Requested:** USD 30,000

**1D. Resource Justification:** Public awareness of the seriousness of drug use in Paraguay will help build public support for GOP anti-narcotics interdiction and production programs. It will also educate children, parents, and teachers about the dangers of drug abuse. Much research has shown effective programs to prevent first use of drugs by youth are critical to reducing the number of adults who consume and abuse drugs.

**1E. Performance Measurements:** Receipt of demand reduction courses by at least 50% of the students attending schools in Asuncion, and a 10% decrease in instances of narcotics abuse in targeted areas, as measured by surveys and statistical data. Greater public awareness (particularly by school-aged children) as measured by reliable polls on the dangers posed by drug use and the drug trade to Paraguayan society.

**1F. Sustainability:** Historically, the GOP has dedicated few resources to programs aimed at reducing demand. It may be necessary for other governments or NGO's to meet resource requirements absent U.S. funding.

**1G. Evaluation Plan:** GOP statistics.

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#### Project Title: Culture of Lawfulness

**Project Description:** This project would foster a culture of lawfulness to counter the culture of corruption that prevails in Paraguay through programs focused on schools and civil society. The project's core would be integrated into the curriculum of targeted schools to ensure community buy in and long term impact. Separately, the project would identify NGO partners for community-based efforts particularly focused on identifying future leaders of the private and public sector.

Resources Requested: \$50,000

**Resource Justification:** Corruption is endemic in Paraguay. According to Transparency International's most recent survey, Paraguay ranked as the second most corrupt country in South America and the Caribbean after Haiti, and the sixth worst in the world. There are many reasons for this problem and the Duarte government has adopted several reforms to deal with it. However, much of the problem resides in cultural attitudes towards corruption that foster and sanction its practice. Until the society as a whole embraces a culture of lawfulness that views corruption as not only illegal but morally wrong and the cause of Paraguay's poverty , it will remain difficult to transform Paraguay's longterm record and develop deeply rooted institutions. In a society where corruption is the norm, Paraguay could benefit significantly from such a program geared towards education on the benefits of lawfulness. Funds would be used towards development of an education campaign, similar to the demand reduction program, focused on school-aged children, their parents and teachers. Also, the development of Public Service Announcements on anti-corruption could target all levels of society.

**Performance Measurements:** Number of participants in the program; change in attitudes of participants about corruption per polling.

**Sustainability:** National and local authorities would be required to commit their own resources for continuation of the project.

**Evaluation Plan:** GOP and USG statistics.

### III. RESOURCE TABLES

#### **1A. PROJECT RESOURCE REQUEST TABLE - BY COST COMPONENT**

Project 1 - Strengthening Host Country Enforcement Capability

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Cost Component	FY04	FY05	FY06	FY07	FY08
Operational Support	160	230	230	220	230
Equipment and Commodities	132	100	100	85	85
Training	11	30	25	25	25
Canine Program	45	30	20	20	20

Total Project Request	348	390	375	350	360
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**Project 2 - Money laundering and financial crimes**

Cost Component	FY04	FY05	FY06	FY07	FY08
Commodities		30	30	35	35
Training	50	20	20	25	25
Total Project Request	50	50	50	60	60

**Project 3 - Demand reduction assistance**

Cost Component	FY04	FY05	FY06	FY07	FY08
Commodities	2.5	5	5	5	5
Training	17.5	25	25	25	25
Total Project Request	20	30	30	30	30

**Project 4 - Culture of lawfulness**

Cost Component	FY04	FY05	FY06	FY07	FY08
Commodities		10	10	10	10
Training		20	30	30	20
Total	30	40	30		

**B. PROGRAM DEVELOPMENT AND SUPPORT TABLE - BY OBJECT CLASS**

Object Class	FY04	FY05	FY06	FY07	FY08
Salaries	40	54	54	54	54
Awards	0	0	0	0	0
Commodities	3.5	6	2	2	2
Training/ Travel	12	6	6	6	6
ICASS	23.4	40.5	45	50	50
Total	78.9	106.5	107	112	112

**C. SUMMARY TABLE**

Project	FY04	FY05	FY06	FY07	Y08
Project 1	348	390	375	350	360
Project 2	50	50	50	50	50
Project 3	20	30	30	30	30
Project 4		30	40	40	300
PD&S Subtotal (without PD&S)	78.9	106.5	107	112	112
Total	496.9	606.5	602	582	582

**D. RESOURCE ALLOCATION TABLES**

1) ALLOCATION BY FUNCTIONAL ACTIVITY

Category	FY04	FY05	FY06	FY07	FY08
-- Institutionalize GOP anti-drug capabilities	348.	390	375	350	360
-- Demand Reduction Assistance	20	30	30	30	30
<b>Subtotal</b>	<b>368</b>	<b>420</b>	<b>405</b>	<b>380</b>	<b>390</b>

**Transnational  
Crime**

-- Control M/L	50	50	50	50	50
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**Rule of Law**

-- Culture of lawfulness	30	40	40	30
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**2) COST ALLOCATION BY TARGET DRUG**

Drug	FY04	FY05	FY06	FY07	FY08
Cocaine	398	480	475	450	450
Marijuana	20	20	20	20	20
<b>Total KEANE</b>	<b>418</b>	<b>500</b>	<b>495</b>	<b>470</b>	<b>470</b>